Report

of the

Examination of

United Wisconsin Life Insurance Company

Green Bay, Wisconsin

As of December 31, 2001

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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November 22, 2002

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Commissioners:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

UNITED WISCONSIN LIFE INSURANCE COMPANY
GREEN BAY, WISCONSIN

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of the United Wisconsin Life Insurance Company ("the company" or "UWLIC") was conducted in 1999 as of December 31, 1997. The current examination covered the intervening period ending December 31, 2001, and included a review of such 2002 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

Independent actuaries were engaged under a contract with the Office of the Commissioner of Insurance. They reviewed the adequacy of aggregate life and accident and health reserves and cash flow testing. The results of their work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuaries' conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1982 and is the surviving entity of a merger between United Wisconsin Life Insurance Company, a Wisconsin domiciled company and Life Insurance Associates, an Arizona-domiciled insurer. Both UWLIC and Life Insurance Associates were subsidiaries of Blue Cross & Blue Shield United of Wisconsin (BCBSUW).

The company was originally a 100% owned subsidiary of United Wisconsin Services, Inc., (UWSI) which, in turn, was wholly owned by BCBSUW. BCBSUW sold 35% of UWLIC's stock in February, 1983, to International Financial Services, Inc. (IFS), a holding company domiciled in Miami, Florida.

In April, 1983, BCBSUW contributed all of its 65% interest in UWLIC to UWSI, a wholly owned subsidiary of BCBSUW. In December, 1985, UWSI acquired the remaining 35% interest in UWLIC from IFS and became the sole shareholder of UWLIC.

Effective December 31, 1996, UWLIC was contributed to American Medical Security Holdings, Inc. (AMSH), a wholly owned subsidiary of UWSI. Effective March 31, 1997, American Medical Security Insurance Company (AMSIC), an Arizona-domiciled insurer, was merged into UWLIC. In September, 1998, the UWSI specialty products and HMO business segment was spun off to a new holding company, which took the UWSI name. The original UWSI, the holding company for the remaining small group health insurance segment, was renamed American Medical Security Group, Inc. (AMSG).

As of December 31, 2001, BCBSUW owned 45.2% of the outstanding common stock of AMSG. On March 19, 2002, AMSG entered into a stock purchase agreement with Cobalt Corporation ("Cobalt"), formerly known as United Wisconsin Services, Inc. (UWSI), and its wholly owned subsidiary, Blue Cross & Blue Shield United of Wisconsin ("BCBSUW"), AMSG's largest shareholder, to repurchase 1.4 million shares of AMSG's common stock owned by BCBSUW at a total cost of $19.5 million, including related transaction costs. In conjunction with the stock repurchase, BCBSUW completed the sale of 3,001,500 shares of the AMSG's common stock in an underwritten secondary offering during the second quarter of 2002. As a result of these transactions, Cobalt's ownership of the AMSG was reduced from approximately 45% at December 31, 2001, to approximately 15% at the end of the second quarter of 2002. American Medical Security Group is publicly traded over the New York Stock Exchange under the symbol “AMZ”.

During 2001, the company wrote direct premium in the following states:

Florida	$ 83,956,127	9.7%
Illinois	80,878,192	9.4
Michigan	80,649,842	9.3
Wisconsin	79,120,552	9.2
Texas	63,263,037	7.3
All others	476,314,479	55.1
	$ 864,182,229	100.0%

The company is licensed in the District of Columbia and all states except Alaska, Connecticut, Hawaii, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island and Vermont. The company was not licensed in California at year-end 2001, but subsequent to year-end received a certificate of authority in that state.

The company, through its affiliated third party administrator American Medical Security, Inc. (AMS), markets health care benefits and insurance products, i.e., medical, dental, short-term disability and life to small employer groups, large employer groups, and to families and individuals. Currently, in Wisconsin, the small and large employer group business is marketed through policies issued and delivered to the employer. Existing employer business may have been issued under the multiple employer trust master group policy held in Alabama. Products marketed in Wisconsin to individuals and their families are issued under an association group policy issued and delivered in Ohio. AMS, a licensed third party administrator, performs administrative services for the company, such as billing and collection, claims payment and such other defined administrative function. Approximately 25,000 independent and general agents market the company's products across the country. The company has a network of 17 regional sales offices and 21 district sales office location, utilizing approximately 17 regional sales managers and 57 district sales managers.

The following chart is a summary of the net insurance premiums written by the company in 2001. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Ordinary life	$ 197,692	$	$ 183,258	$ 14,434
Group term life				
Life	38,392,095	289	20,528,819	17,863,565
Billing Fees	33,668			33,668
Total Life	38,623,455	289	20,712,077	17,911,667
Accident and health				
Medical	725,857,916	1,149,768	2,567,946	724,439,738
Dental	66,534,382	27,120		66,561,502
Short term disability	2,647,338	1,207		2,648,545
Stop Loss	27,372,743			27,372,743
Billing Fees	1,500,328			1,500,328
Total A&H	823,912,707	1,178,095	2,567,946	822,522,856
Total All Lines	$862,536,162	$1,178,095	$23,280,023	$840,434,524

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of three members. Directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members are not compensated for serving on the board.

The board of directors at the date of fieldwork consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Samuel Miller Green Bay, WI	Chairman, President & CEO	2003
Gary Guengerich Moneta, VA	Executive Vice President, CFO & Treasurer	2003
Timothy Moore Green Bay, WI	Senior Vice President, General Counsel & Secretary	2003

Officers of the Company

The officers serving on the date of fieldwork are as follows:

Name	Office	2001 Compensation
Samuel Valentine Miller	Chairman, President & CEO	$1,072,043
Gary David Guengerich	Executive Vice President, CFO & Treasurer	381,972
Timothy Joseph Moore	Sr. Vice President of Corporate Affairs, General Counsel & Secretary	238,606
James Carl Moddaff	Executive Vice President & Chief Actuary	381,345
Thomas Gary Zielinski	Executive Vice President of Operations	414,238
Timothy Frank O'Keefe	Sr. Vice President & Chief Marketing Officer	*

*Elected in 2002, no 2001 compensation available.

Officers are compensated by American Medical Security, Inc.

Committees of the Board

There were no committees of the board at the time of the examination.

IV. AFFILIATED COMPANIES

United Wisconsin Life Insurance Company is a member of a holding company system. Below is a brief description of the significant affiliates of UWLIC and affiliated agreements. The organizational chart, which depicts the relationships among the affiliates in the group, as December 31, 2001, follows the descriptions.

American Medical Security Group, Inc. (AMSG)

AMSG is the holding company for the American Medical Security Group, and is the 100% owner of American Medical Security Holdings, Inc., as discussed below. The company is publicly held, and is traded on the New York Stock Exchange under the symbol “AMZ”. As of December 31, 2001, the company's consolidated audited financial statement reported assets of $473,014,610, liabilities of $243,614,121, and shareholder’s equity of $229,400,489. Operations for 2001 produced net income of $4,174,777.

American Medical Security Holdings, Inc. (AMSH)

AMSH is a general business corporation, organized pursuant to ch. 180, Wis. Stat. It operates as a holding company for related entities. As of December 31, 2001, AMSH's audited numbers from the AMSG financial statement reported assets of $251,289,279, liabilities of $616,963, and equity of $250,672,316. Operations for 2001 produced net income of $4,022,425 on total revenues of $6,195,576.

American Medical Security, Inc. (AMS)

AMS, is a Delaware general business corporation that operates as a third-party administrator. As of December 31, 2001, the unaudited numbers from the AMS financial statement reported assets of $29,610,873, liabilities of $29,348,070, and equity of $262,803. Operations for 2001 produced a net loss of $9,232,842 on total revenues of $218,498,970.

American Medical Security Insurance Company of Georgia (AMSICGA)

AMSICGA is a wholly owned insurance subsidiary of UWLIC. As of December 31, 2001, AMSICGA's audited financial statement reported assets of $6,240,383, liabilities of $79,932, and capital and surplus of $6,160,451. Operations for 2001 produced net income of $235,805. AMSICGA was not a direct writer of insurance during the examination period but assumed small group life and health risks through reinsurance.

U&C Real Estate Partnership (U&C)

U&C is a general partnership, governed by the laws of the state of Wisconsin, established to own and operate the real estate and building that serve as the home office for AMSG and its subsidiaries. At December 31, 2001, UWLIC had a 99.4% ownership interest in the partnership, with the remaining 0.6% owned by AMSG. As of December 31, 2001, U&C's unaudited financial statement reported assets of $26,830,902, liabilities of $4,938,186, and partners' equity of $21,892,716. Operations for 2001 produced net loss of $112,901.

Cobalt Corporation (Cobalt)

Cobalt formerly known as United Wisconsin Services, Inc. (UWSI), is a publicly traded company that operates as an insurance holding company. Cobalt is the parent of Blue Cross & Blue Shield United of Wisconsin. The December 31, 2001 audited consolidated financial statements for Cobalt reported assets of $727 million, liabilities of $519 million, and shareholders' equity of $208 million. Operations for 2001 produced a net loss of $22 million on revenues of $1.4 billion.

Blue Cross & Blue Shield United of Wisconsin (BCBSUW)

Blue Cross & Blue Shield United of Wisconsin is a nonstock, service insurance corporation, incorporated in 1939, and organized pursuant to ch. 613, Wis. Stat. Effective March 23, 2001, BCBSUW converted to a stock insurance corporation and organized pursuant to ch. 611, Wis. Stat. BCBSUW has established, maintained, and operated service plans to provide and pay indemnity for hospital services, sickness care, and other health care services. As of December 31, 2001 BCBSUW owned approximately 45% of AMSG. However, during fieldwork this percentage had decreased to 15% as discussed in the section of this report captioned "History and Operations."

As of December 31, 2001, BCBSUW's audited statutory financial statements reported assets of $244 million, liabilities of $159 million, and unassigned funds of $85 million. Operations for 2001 produced a net loss of $1.5 million on revenues of $597 million.

United Wisconsin Insurance Company (UWIC)

UWIC is a Wisconsin stock insurance corporation, incorporated in 1957, and organized pursuant to ch. 611, Wis. Stat. UWIC, a wholly owned subsidiary of Cobalt, has established, maintained, and operated accident, sickness, long-term disability, and other health care insurance plans. As of December 31, 2001, UWIC's audited statutory statement reported assets of $79 million, liabilities of $36 million, and capital and surplus of $43 million. Operations for 2001 produced net income of $2 million on revenues of $79 million.

United Heartland Life Insurance Company (UHLIC)

UHLIC is a stock insurance company, incorporated on August 23, 1990, and organized pursuant to ch. 611, Wis. Stat. UHLIC provides group term life, individual whole life, and group accidental death and dismemberment coverages. As is further outlined in the "Reinsurance" section of this report, UHLIC assumes life business from UWLIC. As of December 31, 2001, UHLIC's audited statutory statement reported assets of $40 million, liabilities of $29 million, and surplus of $11 million. Operations for 2001 produced a net loss of $414,000 on revenues of $22 million.

Affiliated Agreements

AMS provides the majority of administrative and management services necessary for UWLIC. Such services are provided under an administrative services agreement, the most recent version of which was effective April 1, 2001. Duties of AMS specified in the agreement include marketing, underwriting and provider contracting, billing and collection, and claims supervision and payment. For its services, the agreement calls for AMS to receive an administrative fee of $35 per fully insured life in force per month. An amendment was signed in 2002, which changed the administrative fee to the actual cost of expense incurred by AMS.

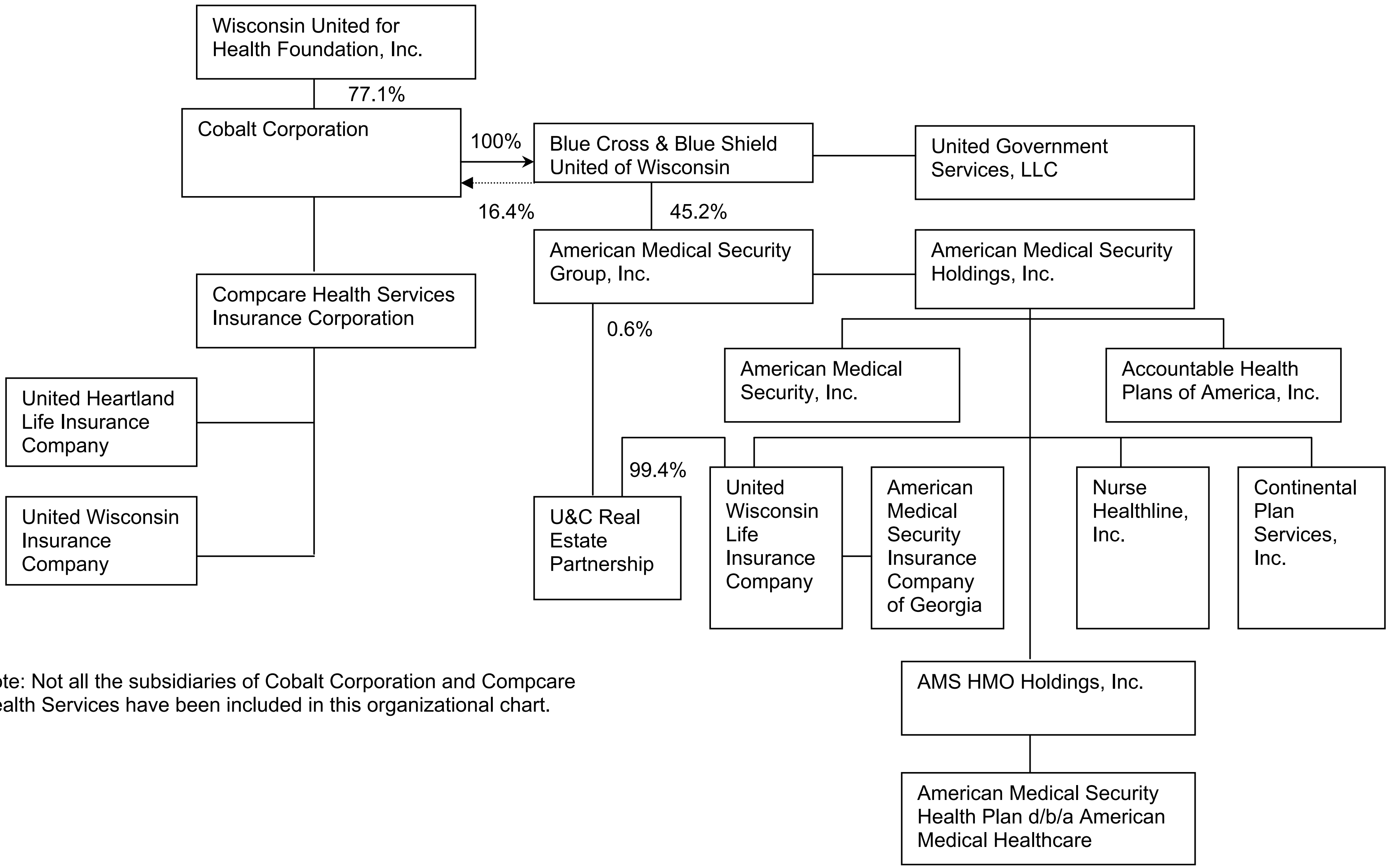
AMS and its affiliates are parties to a Federal Income Tax Allocation Agreement. This agreement was effective September 25, 1998. The agreement provides that the group should file a consolidated tax return, in which AMSG is defined as the parent. Each subsidiary agrees to pay the amount of the consolidated federal income tax liability attributable to each subsidiary. Prior to the end of each year, each subsidiary is required to advance to the parent, within a reasonable period after request by the parent, amounts necessary to reimburse the parent for that portion of any estimated federal income tax payments. The parent is required to promptly refund any excess payments to the subsidiary.

UWLIC has entered into a restated and amended administrative services agreement, effective June 1, 1999, which provides for UWLIC to underwrite the out-of-network point-of-service product for its affiliate American Medical Security Health Plan, Inc., a Florida health maintenance organization.

UWLIC is a party to another administrative services agreement effective October 1, 1997, under which its affiliate Continental Plan Services, Inc., is to administer certain insurance coverages issued by UWLIC. The terms of the agreement are similar to the primary AMS/UWLIC agreement.

In September 1998, in conjunction with the group restructuring discussed in the "History and Operations" section of this report, UWIC and UWLIC entered into agreements pertaining to certain blocks of health business. Under the alliance agreement, UWLIC took over responsibility for underwriting business offered among the companies and the Better Business Bureau Healthcare Corp. and the Ohio Business Healthcare Cooperative. Under an administrative services agreement, UWLIC authorized Cobalt and BCBSUW to market, administer and perform basic services with respect to certain life and accident and health policies reinsured by UHLIC and UWIC.

Organizational Chart
As of December 31, 2001



Note: Not all the subsidiaries of Cobalt Corporation and Compcare Health Services have been included in this organizational chart.

V. REINSURANCE

UWLIC has entered into a number of reinsurance agreements under which it cedes business to other insurance companies to mitigate large claim risk, and assumes risk from other insurance carriers.

UWLIC currently assumes very little Life/Annuity/Deposit business from a non-affiliated insurer, Continental Assurance Company (Continental). In addition, the company also assumes accident and health business, which primarily consists of business from Continental. Most of UWLIC's reinsurance treaties have been in place since 1997. Each of the company's current reinsurance contracts contains proper insolvency provisions.

Ceding Contracts

The company's primary ceding reinsurance agreement is a quota share agreement with United Heartland Life Insurance Company (UHLIC). This contract cedes to UHLIC the life risks of UWLIC policies marketed by Meridian Marketing Services, Inc. UWLIC cedes 100% of the net earned premium attributable to the life risk and a 100% of the liability of the life risks on a quota share basis to UHLIC. In consideration of UWLIC ceding its Liability, UHLIC pays to the UWLIC a ceding commission of one half of one percent of the gross premiums.

UWLIC has a number of other ceding reinsurance contracts still active. These include a reinsurance contract with United Wisconsin Insurance Company (UWIC), under which UWLIC assumes Minnesota accident and health policies written by UWIC. Another ceding contract with Wisconsin Vision Service Plan, covers certain riders on policies, contracts and certificates and other obligations of insurance vision care benefits. In addition, there are two ceding agreements with Continental Assurance Company (Continental). One contract is an excess of loss reinsurance treaty in which Continental automatically accepts reinsurance for group or individual comprehensive medical insurance policy in excess of the deductible of $500,000 issued by UWLIC, to a maximum benefit of $5,000,000. The other agreement is an excess loss agreement in which Continental automatically accepts reinsurance for group life and accidental and death and dismemberment benefits UWLIC shall retain $50,000 and are subject to the limits of $300,000 in the face amounts respectively.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2001, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

United Wisconsin Life Insurance Company
Assets
As of December 31, 2001

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$265,350,264	$	$265,350,264
Stocks:			
Preferred stocks	707,966		707,966
Common stocks	6,160,451		6,160,451
Cash	4,319,854		4,319,854
Short-term investments	5,974,728		5,974,728
Other invested assets	21,771,337	2,780,694	18,990,643
Reinsurance ceded:			
Amounts recoverable from reinsurers	25,757		25,757
Experience rating and other refunds due	23,557		23,557
Federal and foreign income tax recoverable and interest thereon	6,377,665	1,423,705	4,953,960
Life insurance premiums and annuity considerations deferred and uncollected on in force business	54,090		54,090
Accident and health premiums due and unpaid	2,453,399		2,453,399
Investment income due and accrued	3,548,919		3,548,919
Receivable from parent, subsidiaries and affiliates	3,191,462	1,475,420	1,716,042
Write-ins for nonadmitted assets:			
Prepaid Commissions	2,229,064	2,229,064	
Drug Rebate Receivable	510,782	510,782	
Prepaid Expenses	3,468	3,468	
Write-ins for other than invested assets:			
Receivable for Drug Rebates	955,319		955,319
Accounts Receivable from Non-Affiliate	797,034		797,034
Due from Health Plan Administrators	13,914		13,914
Due from Pan American Life Insurance Company	1,018		1,018
Receivable for Premium Taxes	286		286
Total Assets	$324,470,334	$8,423,133	$316,047,201

United Wisconsin Life Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2001

Aggregate reserve for life policies and contracts	$ 970,278
Aggregate reserve for accident and health policies	5,854,545
Policy and contract claims:	
Life	2,405,174
Accident and health	116,110,985
Premiums and annuity considerations received in advance	15,796,675
Policy and contract liabilities not included elsewhere:	
Provision for experience rating refunds	163,481
Interest maintenance reserve	2,487,782
General expenses due or accrued	3,690,834
Taxes, licenses, and fees due or accrued, excluding federal income taxes	1,756,341
Federal and foreign income taxes	2,205,664
Amounts withheld or retained by company as agent or trustee	185,875
Remittances and items not allocated	5,173,148
Miscellaneous liabilities:	
Asset valuation reserve	2,771,903
Reinsurance in unauthorized companies	1,502
Payable to parent, subsidiaries and affiliates	5,262
Write-ins for liabilities:	
Reinsurance Reserve Fund	712,154
Due Reinsurers	106,862
Due to Continental Assurance Company	19,896
Total Liabilities	160,418,361
Common capital stock	6,000,000
Gross paid in and contributed surplus	153,207,728
Unassigned funds (surplus)	(3,578,888)
Surplus	155,628,840
Total Liabilities, Surplus, and Other Funds	$316,047,201

United Wisconsin Life Insurance Company
Summary of Operations
For the Year 2001

Premiums and annuity considerations for life and accident and health policies and contracts	$840,434,524
Net investment income	16,999,347
Amortization of interest maintenance reserve	348,295
Commissions and expense allowances on reinsurance ceded	1,656,595
Total income items	859,438,761
Death benefits	6,296,235
Disability benefits and benefits under accident and health policies	597,085,973
Surrender benefits and withdrawals for life contracts	67
Increase in aggregate reserve for life and accident and health policies and contracts	1,681,376
Subtotal	605,063,651
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	119,210,089
Commissions and expense allowances on reinsurance assumed	55,926
General insurance expenses	88,575,487
Insurance taxes, licenses, and fees excluding federal income taxes	19,378,694
Increase in loading on deferred and uncollected premiums	(350)
Write-in for deductions:	
Interest & Penalty Expense	42,026
Total deductions	832,325,523
Net gain from operations before dividends to policyholders and federal income taxes	27,113,238
Net gain from operations after dividends to policyholders and before federal income taxes	27,113,238
Federal income taxes incurred (excluding tax on capital gains)	8,778,285
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	18,334,953
Net realized capital gains or (losses) less capital gains tax and amount transferred to the IMR	(518,432)
Net Income	$ 17,816,521

United Wisconsin Life Insurance Company
Cash Flow
As of December 31, 2001

Premiums and annuity considerations for life and accident and health policies and contracts	$ 841,429,293		
Net investment income	18,451,551		
Commissions and expense allowances on reinsurance ceded	1,656,595		
Total		$861,537,439	
Death benefits	6,238,188		
Disability benefits and benefits under accident and health policies	607,479,653		
Subtotal	613,717,841		
Commissions on premiums, annuity considerations, and deposit type contract funds	119,210,089		
Commissions and expense allowances on reinsurance assumed	55,926		
General insurance expenses	86,059,410		
Insurance taxes, licenses and fees, excluding federal income taxes	21,373,969		
Write-ins for deductions:			
Interest & Penalty Expense	42,023		
Subtotal	840,459,258		
Federal income taxes (excluding tax on capital gains)	9,569,157		
Total deductions		850,028,415	
Net cash from operations			$ 11,509,024
Proceeds from investments sold, matured, or repaid:			
Bonds	136,042,652		
Stocks	2,014,891		
Total investment proceeds		138,057,543	
Net tax on capital gains(losses)		(273,497)	
Cost of investments acquired (long-term only):			
Bonds	135,617,286		
Miscellaneous applications	(887,677)		
Total investments acquired		134,729,609	
Net cash from investments			3,601,431
Cash provided from financing and miscellaneous sources:			
Other cash provided	5,853,038		
Total		5,853,038	
Cash applied for financing and miscellaneous uses:			
Dividends to stockholders paid	8,402,865		
Other applications	3,447,191		
Total		11,850,056	

Net cash from financing and miscellaneous sources	(5,997,018)
Net change in cash and short-term investments	9,113,437
Reconciliation	
Cash and short-term investments, December 31, 2000	1,181,141
Cash and short-term investments, December 31, 2001	$ 10,294,578

NOTES TO THE FINANCIAL STATEMENTS

The following is a selected note from the company's financial statements. To see a complete set of Notes to the Financial Statements, please refer to the company's filed statutory statement.

14. D. Other Contingencies

On February 7, 2000, a $5.4 million verdict was entered against the company in a lawsuit filed by Health Administrators, Inc., an insurance agency owned and operated by a former agent of the company, which alleged breach of contract involving commission amounts due to such agent. On March 29, 2001, the Ohio Court of Appeals affirmed a portion of the verdict, with modifications, representing approximately $3.0 million in damages. The company paid substantially all of the judgment in December 2001. The appeals court reversed and remanded the remaining issue in the case representing approximately $2.4 million in damages. The remanded portion of the case is awaiting further action by the trial court. Briefs have been submitted for the remanded portion of the case and the parties are awaiting the trial court's decision. Management believes that the company has adequately provided for any losses that may result from this case.

In February 2000, a complaint was filed against the company and AMS in the Circuit Court for Palm Beach County, Florida, seeking certification of a statewide class action on behalf of certain individuals insured by or formerly insured by the company. Plaintiffs claim the company and AMS did not follow Florida law when it discontinued writing certain health insurance policies and offered new policies in 1998. Plaintiffs claim the company wrongfully terminated policies, improperly notified insured of conversion rights and charged improper premiums for the new policies. The trial is scheduled to commence as a bench trial in March 2002. The company believes it acted in compliance with applicable Florida law with regard to the termination of and conversion of insurance policies. Although it cannot predict the outcome of this case, the company believes this suit is without merit and is defending its position vigorously. Management believes that the company has adequately provided for any losses that may result from this case.

Various other lawsuits against the company have arisen in the course of the company's business. Contingent liabilities arising from litigation, income taxes, and other matters are not considered material in relation to the financial position of the company.

United Wisconsin Life Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2001

Assets		$ 316,047,201	
Less investment in insurance subsidiaries		6,160,451	
Add security surplus excess of insurance subsidiaries		3,160,451	
Less liabilities		160,418,361	
Adjusted surplus			$152,628,840
Annual premium:			
Individual life and health	$ 7,413,387		
Factor	15%		
Total		1,112,008	
Group life and health	834,015,905		
Factor	10%		
Total		83,401,590	
Compulsory surplus (subject to a $2,000,000 minimum)			84,513,598
Compulsory surplus excess or (deficit)			$ 68,115,242
Security surplus:			
115% of compulsory surplus			97,190,638
Security surplus excess or (deficit)			$ 55,438,202

United Wisconsin Life Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2001

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1998	1999	2000	2001
Capital and surplus, beginning of year	$ 176,517,621	$ 183,288,027	$ 150,011,734	$ 147,228,615
Net income	22,545,768	(20,887,900)	7,048,393	17,816,521
Change in net unrealized capital gains or (losses)	(3,035,425)	(3,161,569)	330,067	(827,290)
Change in net deferred income tax				2,069,852
Change in non-admitted assets and related items	498,020	428,252	(728)	144,557
Change in liability for reinsurance in unauthorized companies				(1,502)
Change in asset valuation reserve	(612,186)	344,924	(160,851)	(278,669)
Cumulative effect of changes in accounting principles				(2,120,379)
Surplus adjustments:				
Paid in	(2,625,771)			
Dividends to stockholders	(10,000,000)	(10,000,000)	(10,000,000)	(8,402,865)
Write-ins for gains and (losses) in surplus:				
Adjust unrealized gain/losses due to merger				
Change to non-admitted classification due to merger				
Capital and surplus, end of year	$ 183,288,027	$ 150,011,734	$ 147,228,615	$ 155,628,840

United Wisconsin Life Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2001

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios may be found after the IRIS ratios.

	Ratio	1998	1999	2000	2001
#1	Net change in capital & surplus	5%	-18%*	-2%	6%
#2	Gross change capital & surplus	4	-18*	-2	6
#3	Net income to total income	2	-2*	1	2
#4	Comm and Exp to Prem and Deposits	Discontinued			
#5	Adequacy of investment income	999*	999*	999*	999*
#6	Non-admitted to admitted assets	1	1	1	3
#7	Total real estate & mortgage loans To cash & invested assets	6	7	7	7
#8	Total affl investments to capital & surplus	21	20	21	17
#9	Surplus relief	-7	-7	1	1
#10	Change in premium	-7	13	-8	-10*
#11	Change in product mix	0	.2	0	.1
#12	Change in asset mix	0	.8	0	.4
#13	Change in reserving ratio	403*	-56*	2	45*

IRIS Ratios No. 1 and No. 2 analyze the change in net and gross capital and surplus for the year. The exceptional ratio results in 1999 are from a $20 million net loss in 1999. The net loss was attributable to underwriting losses in the company's accident and health line of business.

Ratio No. 5 compares the net investment income to the increase in reserves from tabular interest. The exceptional results for Ratio No. 5 were due to the company being primarily a group health insurer. Since the company's business is not written on a level-premium basis like individual life insurance, there are no tabular reserves. Because of the nature of the company's business, the exceptional results are not an indication of insufficient reserves.

Ratio No. 10 represents the percentage change in premium from the prior year to the current year. The exceptional result for Ratio No. 10 in 2001 was due to changes in product mix and a decrease in net medical lives. The company has been exiting markets that have become unprofitable.

Ratio No. 13 represents the number of percentage points of difference between the reserving ratio for current and prior years. The exceptional result in Ratio No. 13 in 2001 were due to the fact the company had decreased reserves because of lower medical lives insured. The ratio was also exceptional in 1998 and 1999. In 1999, the company increased its aggregate reserve by $12 million due to adverse experience in the accident and health line of business. In 1998, the exceptional ratio was the result of changes in the ordinary life business because of new reinsurance agreements that resulted in decrease premiums and reserves.

Growth of United Wisconsin Life Insurance Company

Year	Admitted Assets	Liabilities	Capital & Surplus
1998	350,912,609	167,624,582	183,288,027
1999	346,642,073	196,630,339	150,011,734
2000	315,136,182	167,907,567	147,228,615
2001	316,047,201	160,418,361	155,628,840

Life Insurance In Force (in thousands)

Year	Gross Direct And Assumed	Ceded	Net
1998	13,467,780	9,670,800	3,796,980
1999	14,363,799	12,731,969	1,631,830
2000	14,840,423	11,412,772	3,427,651
2001	9,351,322	6,913,662	2,437,659

Accident and Health

Year	Net Premiums Earned	Net Losses Incurred	Commissions Incurred	Other Expenses Incurred	Combined Loss and Expense Ratio
1998	866,223,048	669,447,536	101,432,792	89,816,322	99.4
1999	983,214,393	797,673,091	119,116,624	105,812,056	104.0
2000	908,232,384	719,088,672	113,694,746	108,120,140	103.6
2001	822,519,020	599,236,777	114,728,087	104,989,595	99.6

Net Life and Accident and Health Premiums have each decreased approximately 16% since 1999. This decrease is partly due to the company exiting unprofitable markets. The company has also seen a decrease in total lives due to increased premiums. The exiting of unprofitable markets has also led to lower combined ratios for the years 1999 to 2001.

Reconciliation of Surplus per Examination

No adjustments to surplus or reclassifications were made as a result of the examination.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were eleven specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management and Control—It is recommended that the company properly file amendments to its by-laws as required by s. 611.12 (4), Wis. Stat.

   Action—Compliance.

2. Financial Reporting—It is recommended that the company properly complete the footnote to Exhibit 5 per the annual statement instructions.

   Action—Compliance.

3. Financial Reporting—It is recommended that the company retain appropriate records to support such balances, pursuant to the requirements of s. Ins 6.80 (4), Wis. Adm. Code.

   Action—Compliance.

4. Holding Company—It is recommended that the company comply with its administrative services agreement; including annually reviewing the fee schedule and making monthly settlements of intercompany balances.

   Action—Compliance.

5. Holding Company—It is recommended that the company take steps to ensure that future holding company filings are complete and accurate.

   Action—Compliance.

6. Holding Company—It is recommended that the company ensure that the summary of affiliated transactions is consistently reported among the affiliated companies in future annual statements through a common Schedule Y, in accordance with the annual statement instructions.

   Action—Compliance.

7. Investments—It is recommended that the company have its custodial agreement amended to include the language required by the NAIC *Financial Condition Examiners Handbook*.

   Action—Compliance.

8. Investments—It is recommended that the company properly complete and submit SUB 1 and SUB 2 forms for its affiliated investments, as required by the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*.

   Action—Compliance.

9. Investments—It is recommended that the company designate loaned securities with an "LS" per the annual statement instructions.

   Action—Compliance.

10. Investments—It is recommended that the company take steps to ensure that proper records are maintained concerning its securities lending transactions, pursuant to the requirements of s. Ins 6.80 (4), Wis. Adm. Code.

    Action—Compliance.

11. Premium—It is recommended that the company retain proper premium records, pursuant to the requirements of s. Ins 6.80 (4), Wis. Adm. Code.

    Action—Compliance.

Summary of Current Examination Results

Financial Reporting

UWLIC had two corporate bonds held at December 31. 2001, which were identified as impaired securities. In accordance with SSAP No. 26, bonds identified with a decline in fair value that is other than temporary, should have the cost basis of the bonds written down to the fair value as a new cost basis and the amount of the write down shall be accounted for as a realized loss. The examination noted that the company appropriately reported the impaired value of the bonds however, the adjustment for the impairment was not listed in Schedule D, Part 1, Column 16, but appeared in Schedule D, Part 4 as a basis adjustment. Since the company did not sell or otherwise dispose the bonds, the adjustment for the impairment should not appear in schedule D, Part 4. It is recommended that the company report the adjustment for the impaired securities held at year-end in Schedule D, Part 1, Column 16 of the impaired securities as instructed by the NAIC Annual Statement Instructions for Life, Accident and Health Insurers.

The independent actuary's review of reserves determined that both the gross and ceded reserves were understated by $527,704. Since the error occurred in both gross and ceded reserves, and the reserve credit given by UHLIC, the reinsurer, was correctly stated, no surplus adjustment per examination was needed. It is recommended that the company correctly report reserves in Exhibit 8 and Schedule S on future annual statements. Subsequent to this finding the company has taken steps to ensure correct reporting of this amount on future annual statements.

Investments

Securities are required to be reported on the company's Schedule D with a NAIC Designation, which denotes the category of credit quality of the security. An insurance company is provided a rating after filing the security with the NAIC Security Valuations Office (SVO). However, securities that are rated by two or more acceptable Nationally Recognized Statistical Rating Organization (NRSRO)'s and are rated equivalent to NAIC designations 1 or 2, are provisionally exempted (PE) for filing purposes. These securities are to be identified with the administrative symbol "PE" proceeding the NAIC designation.

Under the provisional exemption rules, outlined by the Purpose and Procedures Manual of the NAIC Securities Valuation Office, an insurer initially determines if a security is eligible for exemption based on a three part test; a ratings test, an issuer test, and an optionality test. For each provisionally exempt security, the insurer is required to maintain a record supporting its decision, including details of the terms of the security, documents verifying the security's rating, and documents evidencing its continued monitoring of PE securities.

The examination reviewed the company's bonds and found three exceptions where securities were designated with a numeric rating but were not rated by the SVO, and should have had PE designations. In addition, the company reported its preferred stock holding with a P1LZ designation. The examination found this security should have been reported with a P1 designation. It is recommended that all investments be reported on Schedule D with their proper NAIC designations.

VIII. CONCLUSION

UWLIC has reported decreases in its life and accident and health premiums over the four year period. This is due to the company exiting unprofitable markets and the decrease in lives due to increased rates. During the four year period under examination, the company's capital and surplus declined $20.9 million. As of December 31, 2001, the company reported $316 million in assets and $156 million in capital and surplus. Net income of $17.8 million was reported for the year 2001. The company noted in footnote 14 to its 2001 annual statement that in February 2000, a class action lawsuit was filed in Palm Beach County, Florida against the company. The examination cannot determine the impact, if any, of the ultimate resolution of that action.

The company complied with all prior examination recommendations and the current examination resulted in three recommendations dealing with financial reporting and investments.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 30— Financial Reporting—It is recommended that the company report the adjustment for the impaired securities held at year-end in Schedule D, Part 1, Column 16 of the impaired securities as instructed by the NAIC Annual Statement Instructions for Life, Accident and Health Insurers.

2. Page 30— Financial Reporting—It is recommended that the company correctly report reserves in Exhibit 8 and Schedule S on future annual statements.

3. Page 31— Investments—It is recommended that all investments be reported on Schedule D with their proper NAIC designations.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
DuWayne Kottwitz	Insurance Financial Examiner
Sarah Haeft	Insurance Financial Examiner
Ryan Hanson	Insurance Financial Examiner
William Genne	Insurance Financial Examiner
Cruz Flores	Advanced Insurance Examiner

Respectfully submitted,

Danielle C. Rogacki
Examiner-in-Charge